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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6976  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBY/AMEMBASSY CANBERRA 0788  
RUEHBJ/AMEMBASSY BEIJING 1645  
RUEHKA/AMEMBASSY DHAKA 4699  
RUEHNE/AMEMBASSY NEW DELHI 4334  
RUEHUL/AMEMBASSY SEOUL 7879  
RUEHKO/AMEMBASSY TOKYO 5440  
RUEHCN/AMCONSUL CHENGDU 1284  
RUEHCHI/AMCONSUL CHIANG MAI 1298  
RUEHCI/AMCONSUL KOLKATA 0154  
RUEKJCS/DIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAIIA/CIA WASHDC  
RUEHGV/USMISSION GENEVA 3431  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1228  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000003

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STATE FOR EAP/MLS; INR/EAP; OES FOR JMIOTKE AND ACOVINGTON;  
EAP FOR JYAMAMOTO; EEB FOR TSAEGER  
PACOM FOR FPA;  
TREASURY FOR OSIA: SCHUN

E.O. 12958: DECL: 01/03/2018  
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [BM](#)  
SUBJECT: DAEWOO TO SELL SHWE GAS TO CHINA BY 2011

REF: A. 07 RANGOON 746

- [1](#)B. 07 RANGOON 600
- [1](#)C. 07 RANGOON 1036
- [1](#)D. 07 RANGOON 1035

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4  
(b and d)

[1](#)1. (C) Summary. After months of negotiation, Daewoo has agreed to sell gas from its Shwe fields to PetroChina by [1](#)2011. Although the companies have yet to ink the contract, Daewoo officials confirmed that PetroChina has begun drafting plans for the construction of two pipelines - one for gas and one for oil - that will connect Kyauk Pyu in the Bay of Bengal to Kunming, China. During the next three years, Daewoo plans to drill 15 wells in the A1 and A3 offshore blocks, build a well head platform, and install production facilities in Kyauk Pyu. Company officials estimate that once operational, the Shwe gas field will produce up to 500 million standard cubic feet of gas a day. While Daewoo is prepared to meet the 2011 target date, officials remain skeptical that PetroChina can build the pipelines within that timeframe. Officials also informed us of Daewoo's plans for new exploration in offshore blocks, as well as an interest in investing in Burma's onshore oil and gas fields in 2008-2009.  
End Summary.

Gas to China by 2011  
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[1](#)2. (C) Daewoo, after months of speculation and negotiation with PetroChina, has confirmed that it will sell gas from the

offshore Shwe gas fields to China by 2011 (Ref A). Although Daewoo and PetroChina have yet to sign the final agreement, Daewoo Drilling Manager Bruce Leach informed us on December 31 that both companies have agreed on the price of the gas, but still have several minor details, such as the quality of the gas, to iron out. Leach believes the formal announcement will come in January 2008.

13. (C) According to Leach, Daewoo expects to produce an average of 500 million standard cubic feet a day from the Shwe gas fields by 2011; 450 million standard cubic feet will be sold to China with the remainder going to state-owned Myanmar Oil and Gas Enterprise (MOGE). Cognizant that the Burmese Government has failed to pay other petroleum companies for gas produced and consumed (Ref C), Leach explained that Daewoo intends to negotiate an agreement with the GOB that will allow Daewoo to collect all revenues from the export of gas to PetroChina. To ensure GOB payment, Daewoo will deduct the cost of MOGE's gas purchases from the GOB's share of PetroChina revenues.

#### Preparing for Production

14. (C) While Daewoo is committed to meeting the 2011 production deadline, Leach opined that production and export of gas to China may likely be delayed until 2012. Both Daewoo and PetroChina have large obstacles to overcome, he asserted. In the next two years, Daewoo must complete an engineering design for the well head platform in the A1 block, lay pipeline to connect the platform to Kyauk Pyu, and find a rig that will pump the gas. By April 2010, Daewoo plans to start drilling 15 wells, 11 in the A1 block and 4 in the A3 block. Leach explained that drilling will take at least 16 months; if all goes according to plan, the Shwe gas fields should start to produce gas for export by July 2011.

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15. (C) Daewoo's biggest problem, according to Leach, is its current difficulties in securing a rig for production. Daewoo officials have approached several Indian and Chinese companies about rental contracts to no avail. Leach noted that Chinese rigs are busy drilling in the South China Sea and even though India has several rigs available, Indian-owned Oil and Natural Gas Company Videsh Ltd. (OVL) refuses to rent to Daewoo in retribution for Daewoo's decision to sell Shwe gas to China rather than India. Daewoo may be forced to hire a more costly rig from Europe, which would delay production by several months.

16. (C) Leach also opined that constructing two pipelines - one for gas and one for oil condensate - from China to the Bay of Bengal over Burma's mountainous terrain could cost PetroChina more than \$1 billion. While PetroChina has begun drafting plans for pipeline construction, it has yet to announce whether the contract would go to a Chinese or a Burmese construction company. Daewoo officials noted that, regardless of whom gets the contract, the Burmese Government must also assist in the building of the pipelines, hinting that the GOB might use forced labor for the construction project.

#### A Bright Future Ahead

17. (C) Daewoo remains committed to working in Burma, and Shwe gas production by 2011 is only one of Daewoo's projects, Leach informed us. Daewoo will continue exploration in its offshore blocks A1, A3, and deep sea block AD7 (adjacent to A1). Leach affirmed that the seismic data for AD7 is promising, and Daewoo plans to drill two exploration wells in the AD7/A1 region, as well as five wells in the shallow areas of A1 and A3. Once Daewoo is able to secure a rig for deep sea drilling, the company plans to build exploration wells in the deeper part of the A3 block, estimated at 1300 meters

deep. Leach estimated that Daewoo's exploration plans for 2008 could cost more than \$50 million, with deep sea exploration accounting for \$20 million of the total.

18. (C) Daewoo would also like to drill for oil in onshore blocks, which are mostly reserved for Burmese companies, Leach said. Current onshore oil production of 10,000 barrels a day is abysmal, and Daewoo believes it has the technology to produce at least 50,000 barrels a day. The onshore oil reserves are great, Leach declared, but MOGE and other onshore producers such as Focus Energy are unable to tap the reserves because they lack the technology and knowledge of how to drill in high pressure areas (Ref D). Daewoo Managing Director Su-Yeong Yang has met with the Ministry of Energy to petition for two of MOGE's onshore blocks in Magwae Division. While the Ministry of Energy has yet to make a decision, Daewoo has begun researching seismic data for Central Brma.

19. (C) Leach also informed us of Daewoo' long-term production plans for the Shwe gas fiels. By 2023, Daewoo plans to drill another nine ells in the A1 and A3 blocks; these structures hve estimated gas reserves of 4.7 trillion cubic eet. Once drilling commences, Daewoo will look for available markets for export.

#### China: Desire for Gas, But Limited Experience

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110. (C) In our discussions about China and its desire for gas, Leach noted that while several Chinese firms - CNOOC,

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CNPC, and Sinopec - have concessions for both offshore and onshore blocks, none of the companies have begun exploration.

Although CNOOC is the only Chinese company with deep sea drilling experience, it does not have rights to any deep sea blocks. CNPC controls deep sea blocks AD1, AD6, and AD8 (which surround the Shwe gas fields) but lacks the technical ability to explore such depths (1300 meters and deeper), Leach explained. According to its production sharing contract, CNPC has five years to explore the blocks before it loses the concession. CNPC has approached several companies, including Daewoo, to assist with exploration, but according to Leach, did not offer profitable contract terms. CNPC is still looking for a partner, but refuses to work with CNOOC, despite CNOOC's experience and tchnical capability.

Comment

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111. () Despite Burma's ongoing economic and humanitaria crises, Daewoo not only remains committed to woking in Burma, but plans to increase its investmet if given the opportunity. Company officials blieve that there are profits to be made, which gven the absence of world-class competition from .S. and European companies, makes good business ense. Now is the time that we should urge the Soth Korean Government to recommend Daewoo put any epansion plans on hold. Oil and gas revenues, whch totaled more than \$2 billion in 2007, go diretly to Than Shwe and his regime. He has not spen these increasing revenues to address the deteriorating conditions facing the Burmese people. Insted, he has chosen to use the revenues to tighten is hold on power and fill his pockets and those f his cronies. Daewoo has already learned firstand that the Than Shwe regime is no motivated by business sensibility, but rather uses its resources to reward whomever it considers important (like the Chinese) at the moment. The lure of potential profits blinds Daewoo to the reality of the Than Shwe regime.

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